

ECONOMIC DEVELOPMENT

I. OVERVIEW

The Economic Development program is the first of eleven major programs in the statewide program structure. The overall objective of the Economic Development program is to assist in maintaining the State's economy in a strong and competitive condition by providing policies, operations, facilities, services, counseling, and information so as to achieve appropriate rates of growth, high levels of employment, reasonable returns on investments, and steady gains in real personal incomes in a balanced fashion in all sectors of the economy and areas of the State.

The program consists of seven Level II programs: Business Development; Tourism; Agriculture; Aquaculture Development; Technology; Water and Land Development and Management; and Special Community Development. These include a total of 22 lowest-level programs in the Multi-Year Program and Financial Plan for the Budget and Planning Period 2005-2011.

The following organizational entities are involved in this program: Department of Agriculture; Department of Business, Economic Development and Tourism; and Department of Land and Natural Resources.

Important program relationships exist between the Economic Development program and the following private and governmental agencies:

- (1) Federal
 - Department of Agriculture
 - Department of Commerce
 - Department of Defense
 - Defense Advanced Research Projects Agency
 - Office of Naval Research
 - Department of Energy
 - Department of Housing and Urban Development
 - Department of Interior
 - Department of Transportation
 - Department of Homeland Security-Citizen Immigration Services
 - Department of State-Consular Offices in various Asian countries

- (2) Counties
 - Office of the Mayor
 - County Councils
 - Building departments
 - Planning departments
 - Public works departments
 - Transportation departments
 - Economic development offices
 - Police departments
 - Neighborhood boards

- (3) Private
 - Business and commerce associations
 - Chambers of Commerce
 - Economic Development Boards
 - American Immigration Lawyers Association
 - Hawaii Hotel Association
 - Hawaii Visitors and Convention Bureau
 - Visitor Industry Professional Associations
 - Waikiki Improvement Association
 - SMG (Convention Center)
 - Maui High Performance Computing Center (MHPCC)
 - Hawaii Technology Trade Association

- (4) International
 - Asia Productivity Organization
 - Asian Development Bank
 - World Trade Center Association
 - Pacific Basin Economic Council
 - Pacific Asian Travel Association
 - Pacific Fisheries Development Foundation
 - Foreign consular offices located in Honolulu

Some of the more significant activities carried out within the overall Economic Development program are: developing and implementing programs to attract new, job-creating businesses and investment; promoting international trade; providing advice and counseling to businesses; providing loans and loan guarantees; increasing competitiveness of businesses engaged in importing and exporting activities; facilitating development of industries centered on energy, environmental, ocean and recyclable resource-based products and services; carrying out the State's tourism program; inspecting and grading agricultural products; sponsoring applied research in agriculture, aquaculture and biotechnology; providing industry and product promotion; inspecting horticultural and animal imports; planning for technology-based economic development,

developing technology projects, and operating technology or innovation centers; stimulating economic development of specific community districts; promoting growth of the film, video and digital media production industry; and promoting the diverse artistic and cultural resources of Hawaii.

Table I-1 shows the operating and capital investment costs and selected measures of effectiveness of the Economic Development program.

TABLE I-1
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
ECONOMIC DEVELOPMENT

	F i s c a l Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	P r o j e c t e d			
					2007-08	2008-09	2009-10	2010-11
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	8.9	70.4	7.0	8.7				
Operating	152.7	194.0	193.5	194.5	194.5	193.0	193.0	193.0
Total ^{R/}	161.6	264.4	200.5	203.2	194.5	193.0	193.0	193.0
<u>A/ Expenditures in millions of dollars from all funds.</u>								
<u>B/ May reflect rounding differences.</u>								
B. <u>Selective Measures of Effectiveness/ Activity</u>								
1. Gross State Product (1996 Constant \$ in Millions)	41,645	42,763	43,911	45,070	46,216	47,347	48,459	49,597
2. Real Personal Income (1996 Constant \$ in Millions)	36,023	37,001	37,932	38,865	39,774	40,774	41,699	42,676
3. Unemployment Rate (% , Tenths)	4.0	3.5	4.0	4.3	4.4	4.4	4.4	4.4
4. Total Employment (Thousands)	601	613	619	626	633	640	647	654
5. Gross State Product (Current \$ in Millions)	49,370	51,938	54,585	57,314	60,065	62,888	65,781	68,807
6. Personal Income (Current \$ in Millions)	39,558	41,912	44,254	46,616	48,947	51,394	53,861	56,446

A/ Expenditures in millions of dollars from all funds.
B/ May reflect rounding differences.

II. COSTS AND EFFECTIVENESS OF THE RECOMMENDED PROGRAMS

BUSINESS DEVELOPMENT

The objective of the Level II program, Business Development, is to facilitate growth, diversification, and long-term stability of the State's economy by promoting Hawaii's products and services and attracting business and investment. Four programs (Strategic Marketing and Support, BED 100; Arts Film and Entertainment, BED 105; Foreign Trade Zone, BED 107; and General Support for Economic Development, BED 142) administered by the Department of Business, Economic Development, and Tourism (DBED) comprise this Level II program.

The Strategic Marketing & Support Division (SMSD) promotes industry development and economic diversification by supporting existing and emerging industries through attraction of new business and investment, increase in exports of Hawaii products and services, and expansion of Hawaii's participation in global trade and commerce. Working collaboratively with a network of public and private sector partners, SMSD plans and implements programs to: 1) encourage growth of existing and emerging industries by opening and developing domestic and international markets for Hawaii firms; 2) attract new business and investment, particularly knowledge-based and environmentally compatible industries to grow and diversify Hawaii's economy; 3) market Hawaii as a serious place to do business; 4) create new jobs, particularly those that require high-skills to support knowledge-based industries; 5) increase sales and exports of Hawaii products and professional services; 6) administer and promote Hawaii's sister-state relationships to facilitate economic development objectives; and 7) collaborate with the counties, private business, and economic development organizations to support the state's economic development objectives; and 8) support and assist small businesses and community-based enterprises.

Three programs comprise the major activities of the Level III program, Strategic Marketing and Support (BED 100): 1) Service Trade; 2) Investment and Business Analysis; and 3) Business and Community Assistance.

The Service Trade Branch (STB) plans and implements initiatives to increase export and growth of Hawaii's professional services in industries such as life sciences, including medical and health care services, and health and

wellness tourism; education-related services, including edu-tourism; infrastructure-related services, including resort development, architectural, engineering, planning and environmental services; and technology-related services. STB activities include: 1) opening and expanding markets for Hawaii's professional service providers by creating business partnership and matchmaking opportunities locally and abroad; 2) collaborating with the counties, private business, and economic development organizations to support the State's economic development objectives; and 3) leading coordination of the public-private development and marketing of Hawaii's business brand.

The Investment and Business Analysis Branch (IBAB) develops, plans and implements programs to attract investment and businesses to Hawaii. IBAB provides information and facilitates opportunities for businesses considering investing in or expanding to Hawaii. Their activities include: 1) operating representative offices to provide stable linkages with selected regions to generate and follow-up on business opportunities; 2) establishing Hawaii as a significant resource for economies in transition; 3) facilitating matches and strategic alliances for investment into Hawaii's firms in key areas; and 4) administering and promoting Hawaii's sister-state relationships to facilitate economic development objectives.

The Business and Community Assistance Branch (BCAB) consists of four Level III programs.

1. The Business Advocate which reviews and analyzes proposed State agency rules and business-related legislation, provides staff support for the Small Business Regulatory Review Board, and evaluates and attempts to resolve issues reported by the small business community.
2. The Business Assistance program which provides information and referral help to new and existing businesses through the Business Action Center (BAC). Business information from federal, State, and county agencies and private sector sources is identified and disseminated through a single source; thus, saving time, money, and frustration on the part of those needing information. The BAC provides comprehensive information on business license and registration requirements to people starting, expanding, or locating businesses in the state, distributes business license and registration

applications, assists with completion of forms, and forwards forms with applicable fees to the appropriate agency. The administration is proposing to transfer BAC to the Department of Commerce and Consumer Affairs in the FB 2005-07 budget submittal.

3. The Community-Based Economic Development (CBED) program is a grant and technical assistance program which assists in creation and development of non-profit, locally controlled organizations that conduct economic development activities in keeping with their values and resources. Establishing community institutions is a long-term strategy that will result in stronger, self-sustaining communities. This is especially important for the State's rural areas transitioning from sugar and pineapple production to alternative economic development.

DBED also administers direct and participating revolving loan programs (Hawaii Capital Loan Program), the Hawaii Innovation Development Loan program to promote commercialization of new products or inventions, and the Disaster Loan program which assists businesses and individuals who suffer damage in a State-declared natural disaster. The administration is proposing to transfer the Hawaii Capital Loan Program (HCLP) to the Hawaii Strategic Development Corporation in the FB 2005-07 budget submittal and to submit an administrative proposal to re-establish the HCLP.

4. The Enterprise Zones program is a public-private partnership that stimulates business and job creation via tax and other incentives in areas of the state nominated by the counties. Eligible businesses include manufacturers, farmers, wholesalers, aviation and maritime repair firms, data systems and telecommunications companies, and medical research and international training businesses.

The Arts, Film & Entertainment Division (AFED) promotes growth of, and works as a business advocate for the film, video, and digital media production industry, the diverse artistic and cultural resources of Hawaii, and Hawaii-made products. AFED supports and implements programs, projects and activities that result in: (1) an internationally recognized and self-sustaining cinema, television and digital arts industry; (2) an arts and culture industry that is a vibrant and

sustainable sector of Hawaii's economy; and (3) development and expansion of domestic and foreign markets for Hawaii's products.

Two programs comprise the major activities of the Level III program, Arts, Film and Entertainment (BED 105): 1) Film Industry Branch; and 2) Arts & Culture Development Branch.

The Film Industry Branch (FIB): 1) in coordination with county film commissioners, develops and administers a statewide program to encourage motion picture and television production companies and studios to use Hawaii as a production site for feature films, television films and programs, television commercials, and other filming activities; 2) develops and maintains contacts with representatives of the film industry and others involved in related activities to keep the industry apprised of local resources and development of new resources including locations, financial support, equipment and human resources; 3) provides assistance to producers in obtaining film locations, equipment, facilities, permits and clearances, and other requirements for production of films; 4) provides administrative, logistical and research support to the Film and Television Development Board; 5) conducts or arranges for research regarding the film industry such as developing data to identify people, firms and other resources available to support production and disseminates research findings and information; 6) prepares and administers State contracts for development and promotion of the film industry; 7) identifies and analyzes major public problems and issues involving the film industry and recommends appropriate State actions through development of legislative proposals and policies; 8) works closely with committees, task forces, community groups, and industry representatives in addressing problems and issues involving the film industry and in addressing development and promotion of the film industry in Hawaii; and 9) markets, administers and manages the Hawaii Film Studio for production of television series, motion pictures and commercials, and oversees design, construction, and operation of the facility, as well as develops materials to promote the facility.

The Arts & Culture Development Branch (ACDB): 1) directs formulation and implementation of a statewide program to assist Hawaii businesses in developing and expanding domestic and foreign markets for Hawaii's arts and culture products and services and other Hawaii-made products whenever possible; 2) assumes role of facilitator for export- and visitor-related

components of Hawaii's arts and culture industry; 3) acts as a statewide liaison to identify and support economic development opportunities for arts and culture organizations; 4) attracts national, regional, and international arts and culture events with potential for positive net export and visitor-related benefits; 5) arranges and conducts research regarding baseline data on the local arts and culture industry and its relation to export-earning sectors; 6) prepares and administers State contracts for development and promotion of Hawaii's arts and culture industry; and 7) identifies and analyzes major challenges and issues involving the arts and culture industry and works closely with industry representatives and recommends appropriate State actions through development of legislative proposals and policies.

The Foreign-Trade Zone (FTZ) Division administers the federal grant, issued in 1965 to the State of Hawaii, for the Foreign-Trade Zone No. 9 (FTZ #9). There are currently 13 sites on the islands of Oahu, Maui, and Hawaii that have received a foreign-trade zone designation of which three general-purpose zone and four special-purpose subzone sites are activated. As designated operator, the FTZ Division is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed at these sites.

The FTZ Division markets the FTZ program and provides advice and direction to potential users of these facilities. In addition, the FTZ Division operates a general-purpose zone at Pier 2. Any company that imports and exports merchandise can take advantage of the benefits of the FTZ program at this incubation-type, shared-use facility.

Use of the FTZ program has an impact on levels of international trade in Hawaii and helps Hawaii companies compete in national and international markets. In FY 2004, 301 firms used the FTZ #9, handling over \$4.7 billion of merchandise using FTZ procedures. Firms using the FTZ program report a direct employment of 1,464 employees attributable in part to use of the Zone. Exports from activated FTZ sites totaled \$434 million.

Key indicators of the value of the FTZ program to Hawaii's economy over the past five years in terms of employment, merchandise handled (received plus forwarded), and exports as a percentage of foreign merchandise received are shown in the table below.

Foreign Trade Zone #9 Program Key Indicators

	2000	2001	2002	2003	2004
Employment (direct)	1,469	1,447	1,423	1,457	1,464
Total merchandise handled, in + out (\$ million)	3,308	3,686	3,086	3,584	4,763
Pier 2 merchandise handled, in + out (\$ million)	69.9	55.7	60.8	78.1	77.8
Exports (\$ million)	407.7	408.5	314.9	336.2	433.8
Capital improvements (\$ millions)	16.6	49.9	34.8	45.2	34.5
Exports as percent of foreign merchandise received	38.5%	30.7%	38.3%	35.15%	30.91%

More information about the FTZ #9 can be found at
www.ftz9.org.

Table II-1 shows the operating and capital investment costs of
the Business Development sub-program.

TABLE II-1
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
BUSINESS DEVELOPMENT

	<u>F i s c a l Y e a r s</u>							
	<u>Actual</u> <u>2003-04</u>	<u>Est.</u> <u>2004-05</u>	<u>Rec.</u> <u>2005-06</u>	<u>Rec.</u> <u>2006-07</u>	<u>2007-08</u>	<u>P r o j e c t e d</u>		
						<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
<u>A. Costs of the Recommended Program^{A/}</u>								
Capital Investment	...	2.7	.4	...	...	...	...	...
Operating	6.4	9.3	9.7	9.7	9.7	9.7	9.7	9.7
Total ^{B/}	6.4	12.0	10.1	9.7	9.7	9.7	9.7	9.7
<u>A/ Expenditures in millions of dollars from all funds.</u>								
<u>B/ May reflect rounding differences.</u>								
<u>(HTDC)</u>								
<u>B. Selected Measures of Effectiveness/</u>								
<u>Activity</u>								
1. Percent Annual Increase in GSP	5.0	5.2	5.1	5.0	4.8	4.7	4.6	4.6
2. Number of New Jobs Created Per Annum	10,054	11,751	7,307	7,125	7,157	7,180	7,202	7,223

TOURISM

The objective of the Level II program, Tourism, is to proactively plan and support development and promotion of diversified events, attractions, and services for leisure and business travelers that complement Hawaii's traditional resort product, enhance brand identity, assist in overall economic diversification, and provide high quality visitor experiences while sustaining Hawaii's natural and cultural resources, community values, and residents' quality of life.

Act 156, SLH 1998, created the Hawaii Tourism Authority (HTA), as the lead State agency for tourism in Hawaii. A cabinet-level Executive Board was established to oversee the new Tourism Special Fund, create a vision for tourism, and administer tourism development from a statewide perspective. HTA is an administratively attached agency of DBED.

HTA's key responsibility is to oversee marketing and promotion of Hawaii to the world. With creation of the dedicated tourism special fund, Hawaii is able to deliver a more globally competitive marketing and promotional effort. For CY 2004, HTA authorized five major marketing contracts beginning January 1, 2004, for leisure marketing services, with a budget of \$32 million, and to promote corporate meetings and incentive travel throughout the State, with a budget of \$2 million. HTA also contracted for sales and marketing services for the Hawaii Convention Center (HCC) with a budget of \$6 million.

With the 2004 contracts, HTA will also implement a new approach to measure accountability for leisure marketing programs. All accountability measurements will be undertaken by HTA and will measure performance directly related to planned marketing programs.

Creation and enhancement of sporting events is integral as part of HTA's marketing endeavors and goal of increasing visitor expenditures. In FY 2005, HTA will invest \$880,000 in its portfolio of high-profile events. HTA also renegotiated its contract with the National Football League (NFL) through 2009 and is presently negotiating with the Professional Golf Association (PGA) to extend its current contract.

In 2002, the HTA developed its first-ever "Product Development Program: 2002-2003 Strategic Plan" (Plan) which provides clear direction for and increased emphasis on the HTA's tourism product development programs. The primary objective of this program is:

To realize Hawaii's potential as a great place to live and to visit by ensuring that our rich cultural heritage and resources are enhanced, preserved, perpetuated and promoted in a manner that is economically and environmentally sound, and culturally and socially sensitive.

This Product Development program has two levels - county and statewide. The County program involves partnerships between HTA and each of the four major counties of Hawaii in which \$475,000 is provided to each county to support tourism activities on their respective islands in niche areas of agri-tourism, cultural tourism, eco-tourism, health and wellness tourism, edu-tourism, and techno-tourism. The program has enabled county officials to nurture and observe organizers on a more regular basis, improving accountability and expanding support services to the various community groups. HTA oversees management of the statewide Product Development program which was allocated \$300,000.

In addition, HTA also provides funding to support major festivals in Hawaii. HTA recognizes that festivals are important for Hawaii because they have the ability to: 1) engender significant attendance; 2) provide opportunities for substantial marketing activities within and outside Hawaii; 3) increase visitor revenues; and 4) create considerable economic impact. In FY 2005, HTA approved funding of \$1.2 million dollars to support thirteen major festivals in CY 2005, such as the Aloha Festivals, Maui Writers Conference and Retreat, and Hawaii International Film Festival.

As the governmental entity responsible for administering tourism development from a statewide perspective, HTA monitors a variety of tourism-related issues beyond marketing and promotion. HTA leverages the efforts of other government agencies, private organizations, and individuals to address the issues mentioned above. In FY 2005, HTA will provide each of the counties \$100,000 for the "Greeters Program," a program which welcomes cruise ship passengers at island ports. In addition, HTA will also provide a total of \$300,000 to the Visitors Aloha Society of Hawaii (VASH). VASH is a statewide

program that aids visitors who have been victimized by crime while vacationing in Hawaii. In addition, as directed by Act 250, SLH 2002, the HTA has appropriated \$1 million to support efforts to manage, improve, and protect Hawaii's natural environment and areas frequented by visitors.

Table II-2 shows the operating and capital investment costs of the Tourism sub-program.

TABLE II-2
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
TOURISM

	F i s c a l Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	2008-09	2009-10	2010-11
<u>A. Costs of the Recommended Program^{A/}</u>								
Capital Investment	...	3.7	...	...	...	...	...	...
Operating	107.7	109.0	117.2	118.7	118.7	118.7	118.7	118.7
Total ^{B/}	107.7	112.7	117.2	118.7	118.7	118.7	118.7	118.7
<u>B. Selective Measures of Effectiveness/ Activity</u>								
1. Visitors Expenditures (\$ Billions)	10.6	11.1	11.6	12.1	12.1	12.1	12.1	12.1
2. Visitor-Days (Millions of Days)	63.7	65.2	66.6	67.9	67.9	67.9	67.9	67.9
3. Total Visitors Arrivals (M)	6.67	7.1	7.1	7.1	7.1	7.1	7.1	7.1

^{A/} Expenditures in millions of dollars from all funds.

^{B/} May reflect rounding differences.

AGRICULTURE

The objective of this Level II program is to promote conservation, development, and utilization of agricultural resources in the State. More specifically, it is the program's goal to develop an industry in which: prime agricultural lands are fully utilized in profitable diversified crop and livestock production; opportunities for export competition and import substitution are maximized; and agribusinesses involved in production, processing, distribution and marketing of agricultural commodities are competitive in a changing global market.

The mission of supporting an expanding agricultural sector is essential to the overall viability of the State's economy. Agriculture in Hawaii currently generates over one-half billion dollars in farm-gate revenues annually and provides thousands of jobs statewide. In addition, Hawaii agriculture contributes to a desired physical environment and promotes economic as well as social well-being in rural districts across the State.

There are a total of ten lower level programs in the Level II Agriculture program. These programs cover the following functions: financial assistance; plant and animal disease control; forestry; quality and price assurance; marketing; agricultural resources; agribusiness development; research; and aquaculture development.

Some of the more significant organizational relationships that affect the program are:

1. Federal

United States Department of Agriculture (USDA)

United States Department of Commerce (USDC)

Plant and Animal Quarantine- Animal and Plant Health
Inspection Service, Department of Agriculture

Animal Disease Control- USDA- Veterinary Services

Bureau of Reclamation, United States Department of the
Interior

Marketing- Agricultural Marketing Service, Western United States Agricultural Trade Association, Foreign Agricultural Service, National Agricultural Statistics Reporting Service

Meat Inspection- Food Safety Inspection Service

U.S. Forest Service (Institute of Pacific Islands Forestry)

2. State

University of Hawaii College of Tropical Agriculture and Human Resources, UH Cooperative Extension Service, and UH Sea Grant College Program

Resource Development- Department of Land and Natural Resources

Marketing- Department of Business, Economic Development and Tourism

3. County

Planning and Research Departments

Economic Development Programs

4. Private

Agribusinesses and industry organizations such as the Hawaii Farm Bureau Federation and Hawaii Aquaculture Association

Banks and other lending institutions

Environmental groups

The State, in keeping with mandate of the Hawaii constitution, has made a strong commitment to agriculture. This commitment includes developing a greater degree of self-sufficiency for certain commodities and expanding overseas markets for Hawaii products.

The Agriculture program will carry out this mandate by:

1) continuing to serve as an advocate and leader for agriculture; 2) coordinating and facilitating public and

private sector alliances; 3) providing services essential to industry growth; and 4) developing new initiatives designed to stimulate agricultural development.

Table II-3 shows the operating and capital investment costs of the Agriculture sub-program.

TABLE II-3
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
AGRICULTURE

	F i s c a l Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	P r o j e c t e d		
						2008-09	2009-10	2010-11
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	2.7	7.7	1.1	2.0	...	...	...	...
Operating	20.6	26.7	27.9	27.9	27.9	27.9	27.9	27.9
Total ^{B/}	23.3	34.4	29.0	29.9	27.9	27.9	27.9	27.9
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Farm Cash Receipts: Sugar (\$000)	64,000	64,000	85,000	85,000	85,000	85,000	85,000	85,000
2. Farm Cash Receipts: Pineapple (\$000)	102,000	102,000	100,000	100,000	100,000	100,000	100,000	100,000
3. Farm Cash Receipts: Veg. & Melons (\$000)	65,000	65,000	58,000	58,000	58,000	58,000	58,000	58,000
4. Farm Cash Receipts: Fruits Exclude Pineapple (\$000)	27,000	27,000	30,000	30,000	30,000	30,000	30,000	30,000
5. Farm Cash Receipts: Horticulture Specialties	97,000	97,000	75,000	75,000	75,000	75,000	75,000	75,000
6. Farm Cash Receipts: Macadamia Nuts	32,000	32,000	44,000	44,000	44,000	44,000	44,000	44,000
7. Farm Cash Receipts: Coffee (\$000)	24,000	24,000	32,000	32,000	32,000	32,000	32,000	32,000
8. Farm Cash Receipts: Others (\$000)	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
9. Gross Income Per Farm Exclude Sugar & Pineapple	69,000	69,000	68,900	68,900	68,900	68,900	68,900	68,900
10. Average Farm Wage	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50

AQUACULTURE DEVELOPMENT

The objective of this Level II program is to assist statewide aquaculture development through planning, coordination, research, resource management, technical and business assistance, and targeted research and development projects. There is one lowest-level program in the Level II Aquaculture Development Program; the program is in the Department of Agriculture.

Table II-4 shows the operating and capital investment costs of the Aquaculture Development sub-program.

TABLE II-4
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
AQUACULTURE DEVELOPMENT

	F i s c a l Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	P r o j e c t e d		
						2008-09	2009-10	2010-11
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	.5	...	.3	...	...	...	...	...
Operating	.5	.6	.6	.6	.6	.6	.6	.6
Total ^{B/}	1.0	.6	.9	.6	.6	.6	.6	.6
<hr/>								
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Aqua GP as % of Diversified Agric & Aquaculture GP	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
2. Primary Value of Commercial Fishery Product (\$000)	56.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
3. Primary Value of Aquaculture Production (\$000)	27,700	29,000	30,000	32,000	32,000	34,000	34,000	34,000

TECHNOLOGY

The objective of this Level II program is to support statewide economic development and diversification and increase productivity and competitiveness of all economic sectors in the State by facilitating growth and development of technology businesses and related industries as well as Hawaii-based industries which focus on sustainable resources.

Four Level III programs within the Department of Business, Economic Development and Tourism, comprise the Technology program: Strategic Industries Division (BED 120), High Technology Development Corporation (BED 143), Hawaii Strategic Development Corporation (BED 145), and Natural Energy Laboratory of Hawaii Authority (BED 146).

Strategic Industries Division

The objective of the Strategic Industries Division (SID) is to achieve growth, diversification, and long-term stability of the State's economy by facilitating sustained development of Hawaii's technology-based strategic industries. These include:

- Stimulate economic development and diversification by developing and marketing technologies and technology-based enterprises and resource-based industries, with a strong export focus.
- Increase economic efficiency and productivity, and business competitiveness by promoting and facilitating energy conservation and efficiency, and recycling and re-manufacturing.
- Reduce risks to Hawaii's economy by developing cost-competitive indigenous sources of energy to reduce dependence on imported fossil fuels, which increases economic productivity.
- Increase energy security for the State by developing comprehensive plans to meet State energy policy objectives and contingency plans to protect critical energy systems and effectively deal with energy crises.

SID implements responsibilities of the State Energy Resources Coordinator (ERC) by conducting energy planning and policy development activities in energy efficiency, renewable energy, and clean fossil fuel energy resources, including maintaining

energy emergency preparedness plans and procedures and participating in relevant legislative and administrative policy proceedings.

SID implements special energy and sustainable projects awarded through national competitive solicitations. SID promotes energy efficiency through: the Model Energy Code; performance contracting in state facilities that use private partnerships to install cost-effective, energy-efficient equipment; county energy efficiency programs; consumer education; partnerships with professional builders and designers; and recycling and reuse to encourage remanufacturing and recycling businesses.

SID assists Hawaii companies with: access to Asia/Pacific markets; establishing technology market evaluation databases and analyzing Hawaii's technology market performance; and conducting trade missions and initiatives to support U.S. technology product and service exports from Hawaii.

SID provides policy analysis and industry development support for ocean industries by: 1) collecting, analyzing and publishing data relating to ocean industries; 2) strengthening the competitive position of Hawaii as a premier ocean science and technology site and source of related products and services; 3) developing and promoting markets for Hawaii-produced fresh and processed seafood; 4) supporting development of the ocean tourism industry; and 5) evaluating the viability of new ocean resource-based industries, such as marine minerals.

SID also develops programs to build increase commercial activities in technology sectors with high growth potential. These sectors include, but are not limited to, dual-use, life sciences, astronomy and aerospace, and environmental technologies. SID facilitates relationships leading to commercial ventures between innovations from the University of Hawaii and Hawaii's business sector to help realize the University's potential as an economic driver.

High Technology Development Corporation (HTDC)

HTDC was established by the 1983 Legislature in recognition of the potential economic impact of technology on the State with the objective of providing a means to facilitate growth of the technology industry and assisting Hawaii's entrepreneurs and fledgling start-ups.

Statutory duties of the corporation (Chapter 206M, HRS) include, but are not limited to:

1. Developing high tech industrial parks as innovation centers.
2. Providing support and services to high tech companies.
3. Collecting and analyzing information on the State of commercial high tech activities in Hawaii.
4. Promoting and marketing Hawaii as a site for commercial high tech activity.
5. Providing advice on policy and planning for technology-based economic development.

HTDC's activities are focused on the following:

a) Incubation Program

HTDC operates the Manoa Innovation Center (MIC) and Maui Research & Technology Center (MRTC). Within each center is an incubation program that provides pre-qualified companies with management, marketing, technical expertise, and business administrative support. Companies are also educated on financing and venture capital opportunities, and networking opportunities. The program objective is to increase the chance for succeeding in a highly competitive technology environment and to carve out a sustainable niche appropriate for Hawaii's business and cultural environment. A virtual incubation program is also available to companies that do not desire to physically reside at the incubation centers.

b) Facilitating Federal and Dual-Use Opportunities

The Small Business Innovation program helps to develop Hawaii's scientific and research expertise that is focused on commercialization opportunities. The Hawaii Center for Alternative Transportation Technologies is funding various transportation research projects for the U.S. Air Force on Hickam Air Force Base.

c) Marketing and Promotion

"www.hitechhawaii.com" is a one-stop informational web portal for visitors and local companies to assist with marketing of Hawaii's high tech capabilities, information on State tax incentives and links to a calendar of tech-related events, tech-job opportunities, a directory of tech companies in Hawaii, links to other technology resources statewide, and help sites to establish business in Hawaii.

Hawaii Strategic Development Corporation (HSDC)

HSDC provides venture capital funding to emerging and high growth companies by investing in limited partnerships managed by venture capital professionals. HSDC has committed \$5.25 million to five partnerships, which to date have invested in 21 firms ranging from basic service industry providers to high technology start-up companies. HSDC's public funds have been leveraged approximately eight times by private sector investment.

Natural Energy Laboratory of Hawaii (NELHA)

NELHA operates facilities at Keahole Point on the Kona coast of the Big Island whose purpose is to enhance economic development and diversification for the State. The 870-acre facility, the second largest industrial park in Hawaii, is unique in its ability to supply large, continuous flows of cold, pure, nutrient-rich seawater from 2,000-foot depths at 6°C (43°F) and warm surface seawater at 24.5°-27.5°C (76°-82°F). Since Keahole Point is the sunniest location in the coastal U.S., NELHA is able to offer tenants a unique combination of ample sunlight, natural temperature differential, and pristine seawater resources for development and commercialization of new technologies in a wide array of fields such as aquaculture, agriculture, ocean sciences, and renewable energy.

NELHA has 34 tenants that employ over 220 people, generating more than \$30 million annual input into the local economy and about \$2 million in tax revenues to the State. These tenants are served by a staff of 20 State employees whose responsibilities include implementation of strategic long-term planning and development, negotiation and management of leases, operation and maintenance of the seawater systems, environmental monitoring, monitoring compliance with permits,

maintenance of the mandated Wawaloli Beach Park and Ho'ona Archaeological Preserve, and other vital services to its tenants.

NELHA tenants are conducting research and development of many technologies, most related to aquaculture using suitable mixtures of cold deep and warm surface seawater that NELHA pumps ashore. Aquaculture products include: *Spirulina*, astaxanthin nutraceuticals from microalgae, sea vegetables such as *Gracilaria (Ogo)*, Maine lobster, dungeness crab, abalone, shrimp, oysters (both for food and for pearls), giant clams, aquarium fish, *Hirame* (Japanese flounder), and Halibut (Pacific threadfin). Due to an intense interest in deep ocean water by researchers in Japan, additional innovative uses of the deep cold seawater have been implemented including the desalination and bottling of the water for sale as a "boutique" beverage and for inclusion into health supplements, and other products.

A special fund allows NELHA to retain the fees for land, facilities, and services collected from its tenants which are then used to support operations. NELHA continues to work towards self-sufficiency, and in FY 07, operating costs will be totally funded through NELHA's special fund.

NELHA also creates economic opportunities through a federally funded program, the National Defense Center of Excellence for Research in Ocean Sciences (CEROS). Created in 1993 under a \$5 million grant from the Defense Advanced Research Projects Agency, CEROS was transferred in 1995 to NELHA to enhance its ongoing ocean research activities. CEROS solicits and supports innovative technologies for national maritime military applications and sustained technology-based economic development in Hawaii and develops and demonstrates state-of-the-art ocean technologies to address Department of Defense requirements and build residual benefit for the State. Since its inception, CEROS has funded a total of 174 research projects at a value of over \$65.7 million.

Table II-5 shows the operating and capital investment costs of the Technology sub-program.

TABLE II-5
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
TECHNOLOGY

	F i s c a l Y e a r s							
	Actual 2003-04	Est. 2004-05	Rec. 2005-06	Rec. 2006-07	2007-08	P r o j e c t e d		
					2008-09	2009-10	2010-11	
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	...	11.2	...	...	...	...	...	...
Operating	14.8	43.0	31.8	31.3	31.3	29.8	29.8	29.8
Total ^{B/}	14.8	54.2	31.8	31.3	31.3	29.8	29.8	29.8
<hr/>								
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selective Measures of Effectiveness/ Activity</u>								
1. Increase in Leveraging Public Investment with Private Capital (\$M)6		4	15	20	25	10	15	15
2. Increase in # of Venture Capital Partnerships Established	1	2	0	1	1	0	1	0
3. Amount of NELHA Tenant Sales (\$M)	21.4	36.0	67.9	117.7	149.4	178.3	204.8	232.4
4. Increase in NELHA Revenues (\$000)	292	619	879	818	691	779	838	952
5. # of Companies Assisted (HTDC)	36,724	36,980	925	950	950	950	950	950

WATER AND LAND DEVELOPMENT AND MANAGEMENT

The Water and Land Development and Management Level II program encompasses two diverse areas: a) provision of an adequate water supply and the development of State-owned lands to promote economic development and enhance public welfare; and b) flood control and dam safety activities to minimize death, injury, disability, property damage and economic losses.

This program provides support to other programs that are designed to achieve the State's economic, agricultural, environmental and social goals, with priority given to State-sponsored projects. Provision of an adequate supply of water to meet the increasing demands of State-sponsored projects, such as schools and agricultural irrigation systems, is a high priority. Specific policies pursued by this program are: 1) development of new water supplies, giving priority to areas with State projects experiencing critical water problems; 2) investigation and promotion of development and use of alternative sources of water supply; 3) encouraging conservation and wise use of the water supply; 4) development of water sources and water systems in support of agriculture; 5) promotion of partnerships and cost sharing in development of water projects to meet goals of otherwise competing entities; and 6) supporting research and new technological advances in development of alternative water sources.

In terms of flood control, this program prepares, maintains and updates a general statewide flood control plan and an inventory of dams, and coordinates flood control and dam safety activities in the State. It assists the counties in qualifying for Federal projects, and when county funds are inadequate, may take the role of local co-sponsor to provide necessary local assurance required under Federal laws to authorize the projects. Flood control is essentially a local matter and the counties have primary responsibility for flood prevention and control activities. The State and Federal governments assist the counties in carrying out their flood prevention and control responsibilities by providing technical and financial assistance.

With regard to dam safety, the Hawaii Dam Safety Act of 1987 was enacted to protect the safety and welfare of the population living near dams by providing for their periodic inspection and regulation of construction, operation, or removal of these dams when necessary, and establishment of a dam safety program.

The program provides public outreach through technical assistance, publications, workshops and displays, technical assistance to dam owners, and conducts dam inspections.

Table II-6 shows the operating and capital investment costs of the Water and Land Development and Management sub-program.

TABLE II-6

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
WATER AND LAND DEVELOPMENT AND MANAGEMENT

	F i s c a l Y e a r s							
	Actual	Est.	Rec.	Rec.	P r o j e c t e d			
	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	1.4	18.6	1.4	...	...	...	...	...
Operating	0.5	0.6	0.8	0.8	0.8	0.8	0.8	0.8
Total ^{B/}	1.9	19.2	2.2	0.8	0.8	0.8	0.8	0.8

^{A/} Expenditures in millions of dollars from all funds.

^{B/} May reflect rounding differences.

SPECIAL COMMUNITY DEVELOPMENT

The objective of this Level II program is to stimulate economic development of specific community districts by planning and implementing community development programs and facilitating capital investment. Two agencies, Hawaii Community Development Authority (BED 150) and Aloha Tower Development Corporation (BED 151), both of which are administratively attached to the Department of Business, Economic Development and Tourism (DBED), comprise this Level II program.

Hawaii Community Development Authority (HCDA)

HCDA was established by the Legislature in 1976 to plan and implement timely redevelopment of Community Development Districts in urban areas throughout the state, as designated by the Legislature. The Legislature initially designated the Kakaako area as the first Community Development District.

Following an intensive five-year planning process, the Kakaako Community Development District Plan was adopted by HCDA in 1982. This plan serves as the basis for guiding both public and private development activities in revitalization of Kakaako. This includes private development projects, district-wide improvements to the infrastructure systems, parks, public parking garages, waterfront-related improvements, and other community facilities.

Act 184, SLH 2002, designated the former Barbers Point Naval Air Station in Kalaeloa as a new Community Development District under HCDA. Until passage of this legislation, the Barbers Point Naval Air Station Redevelopment Commission (BPNAS-RC) was the entity responsible for implementing redevelopment of the former 3,600+ acre base. However, citing HCDA's proven redevelopment capabilities, the Legislature transferred redevelopment responsibilities from BPNAS-RC to HCDA, and repealed BPNAS-RC's enacting legislation, effective July 1, 2002. The long-term goal is to transform Kalaeloa into an economically vibrant area that will create new jobs, nurture new businesses, and provide much-needed public facilities for the people of Hawaii.

Current major agency activities include:

- Administration of land use, zoning, and other regulatory provisions of the Kakaako Plans and Rules relating to all development activities in Kakaako.
- Implementation of Kakaako Improvement projects.
- Planning and design for the development of Kakaako Makai in accordance with the Kakaako Makai Area Plan.
- Revisions to the Kakaako Plans and Rules to encourage private sector development activities and maximize attainment of overall community development objectives.
- Administration of a relocation program for Kakaako businesses.
- Planning for Infrastructure improvements and development of the Kalaeloa district.

Aloha Tower Development Corporation (ATDC)

ATDC was established in 1981 to redevelop a certain area of land surrounding the Aloha Tower in order "to strengthen the international economic base of the community in trade activities; to enhance the beautification of the waterfront; in conjunction with the Department of Transportation, to better serve modern maritime uses; and to provide for public access and use of the waterfront property."

Table II-7 shows the operating and capital investment costs of the Special Community Development sub-program.

TABLE II-7
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
SPECIAL COMMUNITY DEVELOPMENT

	F i s c a l Y e a r s							
	Actual	Est.	Rec.	Rec.	P r o j e c t e d			
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	4.3	26.4	4.0	6.7	...	...	...	...
Operating	2.2	4.8	5.5	5.4	5.4	5.4	5.4	5.4
Total ^{B/}	6.5	31.2	9.5	12.1	5.4	5.4	5.4	5.4

^{A/} Expenditures in millions of dollars from all funds.

^{B/} May reflect rounding differences.

III. PROGRAM CHANGE RECOMMENDATIONS

There are no program change recommendations for the Economic Development program.

IV. EMERGING CONDITIONS, TRENDS, AND ISSUES

Outlook for the Economy

Prospects for Hawaii's economic growth depend considerably on the Mainland U.S. and Japan economies, Hawaii's two largest trading partners and visitor markets. The November 2004 *Blue Chip Economic Forecast*, an average of about 50 major U.S. forecasts, projects real U.S. GDP to rise 4.4 percent in 2004 and 3.5 percent in 2005.

Recent positive forecasts of Japan's economy suggest more support for Hawaii's continued economic growth. After several years of economic drift and deflation in Japan, the November 2004 *Blue Chip Economic Forecast* projects that Japan's real GDP will grow 4.2 percent in 2004 and 2.2 percent in 2005. The rate of current visitor arrivals from Japan appears to reflect this improved income picture.

According to the November 2004 forecast by the Department of Business Economic Development and Tourism, total visitor arrivals are predicted to grow 7.6 percent in 2004, with visitor days forecast to increase 5.0 percent and visitor expenditures forecast to increase 9.7 percent. Total visitor arrivals are projected to increase 3.0 percent in 2005, which would push Hawaii's annual visitor arrivals above 7 million for the first time. Total wage and salary jobs in the state are expected to grow 2.2 percent in 2004, topping the impressive 1.9 percent job expansion that occurred in 2003. Job growth is expected to remain positive again in 2005 with a 1.5 percent increase. The Honolulu Consumer Price Index (CPI-U) is projected to increase 3.2 percent in 2004. Prices are expected to increase 3.1 percent in 2005. After adjusting for inflation, real personal income is forecast to show a 2.5 percent increase in 2004 and another 2.6 percent increase in 2005. Real Gross State product is expected to grow 2.6 percent in 2004 and 2.7 percent in 2005.

Tourism

For more than three decades, tourism has played a major role in the economic health of the state. Presently, it far surpasses any other industry as Hawaii's primary economic engine. While the state is striving to achieve greater economic diversification, tourism will continue to play a key role in the state's economy in the future. Hawaii has a strong competitive advantage over other destinations; its environment, climate, diversity, culture, and history make Hawaii one of the most preferred destinations on Earth. However, proper asset management must be established to ensure that Hawaii's tourism product remains vibrant and its culture intact.

It is the challenge of the HTA not only to provide short-term economic stimulus to the state economy, but to also consider the needs of future generations. The groundwork that is being developed will be the foundation for tomorrow's tourism industry. This foundation must be appropriately designed and structurally sound so that it can provide stimulus today, and adequate support in the future.

Aquaculture

Growth for the industry is projected to continue over the near term, spurred by expansion of existing microalgae production and by addition of new product species, such as certified virus-free shrimp and offshore cage culture of moi for local consumption and export. On the basis of businesses currently operating in Hawaii and anticipated new ventures, combined revenues could conservatively reach \$44 million annually in 2007 (\$32 million from products and \$12 million from services). The industry as a whole, has sustained a growth rate among the fastest in the broad sectors of Hawaii's ocean industries and diversified agriculture.

Fueling the rapid growth projected for Hawaii's aquaculture revenues will be: worldwide food shortages; growing international and national demand for highly valued and healthful seafood products in the face of production from wild sources leveling off or declining; and national focus on aquaculture research and development to produce more seafood, create jobs, balance trade, conserve wild stocks, and promote rural development.

Hawaii aquaculturists remain in excellent long-term position to derive economic advantage from these strong trends by developing sustainable, environmentally benign technologies for selected commercial developments that produce fresh local food products, augmenting the supply of "wild caught" seafood and reducing seafood imports. In addition, a host of high value non-food products with export potential are being locally developed, including pharmaceuticals, feed ingredients, specialty chemicals, aquarium species, pearls, high health broodstock, and year-round supplies of disease-free baby fish and shellfish.

For these economic opportunities to be realized, the program aims to help the State's aquaculture community deal with near-term issues including: increasing availability of sites for freshwater and marine farms (particularly offshore sites for sustainable ocean farming); improving access to financing for higher risk aquaculture ventures; encouraging funding of research and development to address local problems, while leveraging available federal funds; constructing additional public research/demonstration facilities on Oahu and the neighbor islands; expanding local and export markets for Hawaii businesses; and developing innovative ways of responding to the higher cost environment of Hawaii, so that local ventures continue to attract investment and are competitive. A particularly exciting emerging area for research and commercial development is open-ocean aquaculture, such as large-scale cage culture of fish in the ocean.

Hawaii Community Development Authority (HCDA)

With respect to State lands in Kakaako, HCDA continues to: monitor the population base for development of a school adjacent to Mother Waldron Park; pursue the renovation and reuse of the historic Ala Moana Pump Station; and work toward the redevelopment of the Kakaako Waterfront to establish a special people-oriented gathering place that will include generous oceanfront park spaces, promenades and activity areas, as well as wide tree-lined sidewalks that will enhance the commercial, recreational, and cultural facilities developed to serve Hawaii's residents and visitors. A major catalyst for development of the Waterfront is the University of Hawaii John A. Burns School of Medicine (UH JABSOM) which is slated for completion in Summer 2005.

HCDA will continue with its infrastructure improvements program which facilitates development in the District. The

completion of each ID project brings infrastructure systems up to current standards for existing users and enables redevelopment of previously deteriorating areas. Several infrastructure improvement projects throughout the Kakaako District have been completed, and HCDA will continue this program during the upcoming fiscal biennium. One such project is the construction of improvements to Queen Street from Ward Avenue to Kamakee Street (ID-11), which, pending final approval, is expected to begin prior to Summer 2005, and be completed in early 2007. This project is essential to encourage redevelopment of the area and provide an alternate east-west artery through Kakaako Mauka, bringing relief to Ala Moana and Kapiolani Boulevards. Another project involves the construction of improvements to Ahui, Ohe and Olomehani Streets in the Kakaako Waterfront, which is slated to begin in early 2005 and is expected to be completed in mid 2006. Improvements to infrastructure in the Kakaako Waterfront area are crucial for the planned development of State lands.

HCDA continually re-evaluates and revises the Plans and Rules to adapt to changing economic and social factors. HCDA is conducting a major overhaul of the Kakaako Mauka Plan and Rules to further facilitate development. Additionally, HCDA is currently in the process of considering land use amendments for the Kakaako Makai Plan and Rules.

Kalaeloa

HCDA's functional tasks in Kalaeloa will be largely the same as its tasks in Kakaako, except that most of the land in Kalaeloa will be owned by various government entities. Some of the Navy-retained lands and some of the lands owned by the Department of Hawaiian Home Lands will likely be available for private development. The land ownership scenario presented in Kalaeloa calls for HCDA to focus its efforts on facilitating and coordinating redevelopment efforts by and among the various stakeholders.

However, impending decisions about the home-porting of an aircraft carrier in Hawaii and stationing of a supporting air wing complicate redevelopment efforts. If the aircraft carrier comes to Hawaii, and the decision is made to station the supporting air wing at Kalaeloa, the Navy may need to reacquire some or all of the land it has transferred or conveyed to other agencies. As a result, the Navy and most other landowners at Kalaeloa have ceased long-term planning for the Kalaeloa properties pending these two important

decisions, which are expected sometime during the first half of 2005.

In the meantime, HCDA will move to implement scenario based planning and infrastructure improvements to spur public and private sector development. In support of these efforts, HCDA intends to make use of a \$450,000 grant from the U.S. Economic Development Administration and a matching \$450,000 general obligation bond funds appropriation to begin economic development planning for the district.

In Kalaeloa, a large part of HCDA's role will be to coordinate the timing of redevelopment projects with the various stakeholders to maximize the efficacy of the overall development program.

Aloha Tower Development Corporation (ATDC)

One of ATDC's obligations when it was created was to reimburse the Department of Transportation-Harbors Division for lost revenues and expenses associated with the development. Before expiration of the development agreement, the developer agreed to guarantee payment of the lost revenues on behalf of ATDC. That guaranty expired together with expiration of the development agreement. The obligation has thus returned to ATDC.

The amount of the obligation was negotiated in 1993 with an annual increase tied to the consumer price index. The obligation far exceeds the lease rent ATDC currently generates from the Marketplace annually. ATDC has the option of requesting for a general fund appropriation to meet that obligation or renegotiate the amount of that obligation. For the time being, ATDC has chosen the latter. A proposal was submitted to the Department of Transportation-Harbors Division in August 2000. Resolution of this issue is still pending.

ATDC issued an RFP in August of FY 2003, seeking proposals for the development of Piers 5 and 6. The RFP was issued after ATDC was approached by two different developers proposing mixed-use developments for Piers 5 and 6 with development costs over \$200 million. Proposals were received in December 2002 with selection shortly thereafter. The selection of the Developer, UC Urban/Ken Hughes led to a joint effort to plan for the area between Piers 2 and 11. Three fatal flaws were identified that prevented development

of the project area. They were defined as the HECO plant, Parking, Circulation/Traffic Patterns and the lack of a link to Downtown Honolulu. A Pre-Development Agreement was then entered into with UC Urban to determine whether or not the problems could be resolved. In February of 2004, the ATDC and UC Urban jointly issued a report suggesting that the issues could be resolved in a reasonable manner and setting forth the conditions under which a development agreement could be entered into.

In July, a Development Agreement with UC Urban was entered into, setting forth a complete project which includes private sector development of condominiums, retail and a ferry terminal on Piers 4 to 6, a parking facility at Pier 2, removal of the HECO plant and development of the site into a 21 acre park and open space, reconfiguration of Nimitz Highway with the potential addition of a bypass to alleviate traffic congestion, construction of new cruise ship facilities and Department of Transportation Harbors offices at Pier 10, parking and passenger handling facilities at Pier 11 and the return of Irwin Memorial Park to its natural state.